Category

Debt

Geography/ Location

AB, BC, MB, NB, NS, ON

Municipality Size

Large

Tier

Conditional

Constraints

None

Administrative Capacity Required

Medium

Fiscal Tool Brief: General Obligation Bonds

Local Governments for Sustainability
Les gouvernements locaux pour le développement durable
CANADA

General Obligation bonds let municipalities finance major infrastructure projects by borrowing against their full tax base, providing stable, low-cost capital for long-term community benefits.

Municipal bonds are a common tool used by Canadian municipalities to raise money for major infrastructure projects such as water systems, transit lines, roads, bridges and stormwater management. These bonds allow municipalities to borrow funds from investors and pay them back over time, usually at a low interest rate because municipalities tend to be low-risk borrowers. Municipalities are not allowed to borrow money to cover operating deficits, but they can borrow to fund capital projects that improve public services and infrastructure. Larger cities like Toronto, Ottawa, and Vancouver often issue their own bonds directly in the capital markets. Smaller municipalities usually access loans through pooled arrangements managed by provincial entities like the Municipal Finance Authority in British Columbia (MFABC), the Nova Scotia Municipal Finance Corp (NSMFC), the New Brunswick Municipal Finance Corp (NBMFC), or Infrastructure Ontario (IO) among others. The funding requirements can vary from approximately C$50 million a year for smaller municipalities to C$2 billion in an active year for the larger borrowers.[1] Green bonds have also emerged as a complementary instrument for financing environmentally focused capital projects.

General Obligation (GO) bonds are long-term municipal debentures backed by the full faith and credit and ultimately the property-taxing power of the issuing municipality.[2] These provinces require municipalities to balance operating budgets and limit long-term borrowing to capital projects, making GO bonds a preferred mechanism for financing infrastructure with broad community benefits such as roads, transit, schools, and emergency services. Since repayment is supported by the municipality's total tax base, these bonds typically achieve strong credit ratings and comparatively low interest rates, providing cost-effective access to capital. Their flexibility and stability make them a cornerstone of Canadian municipal finance, particularly for projects that span generations and where costs should be shared between current and future taxpayers.[3]

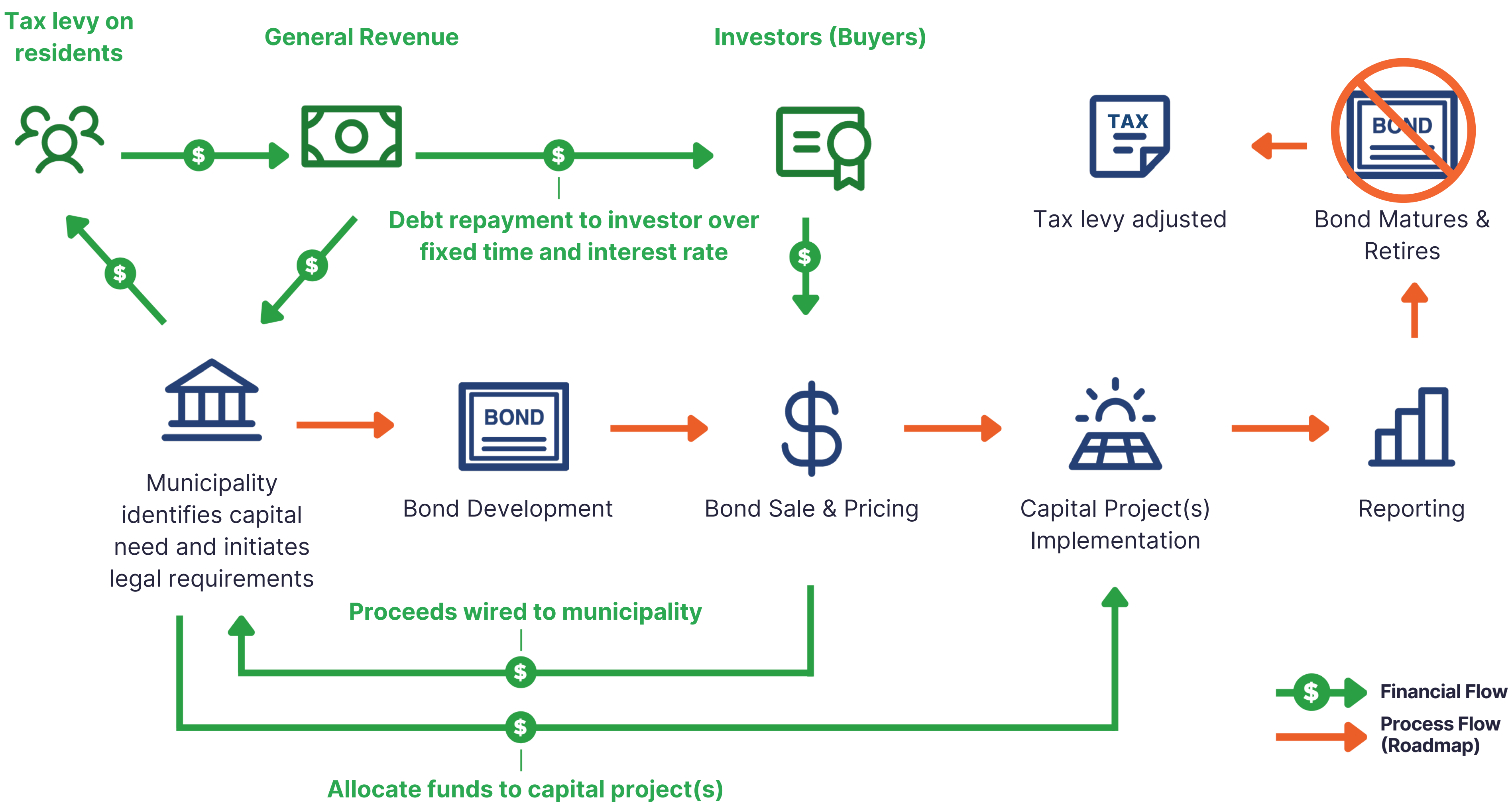
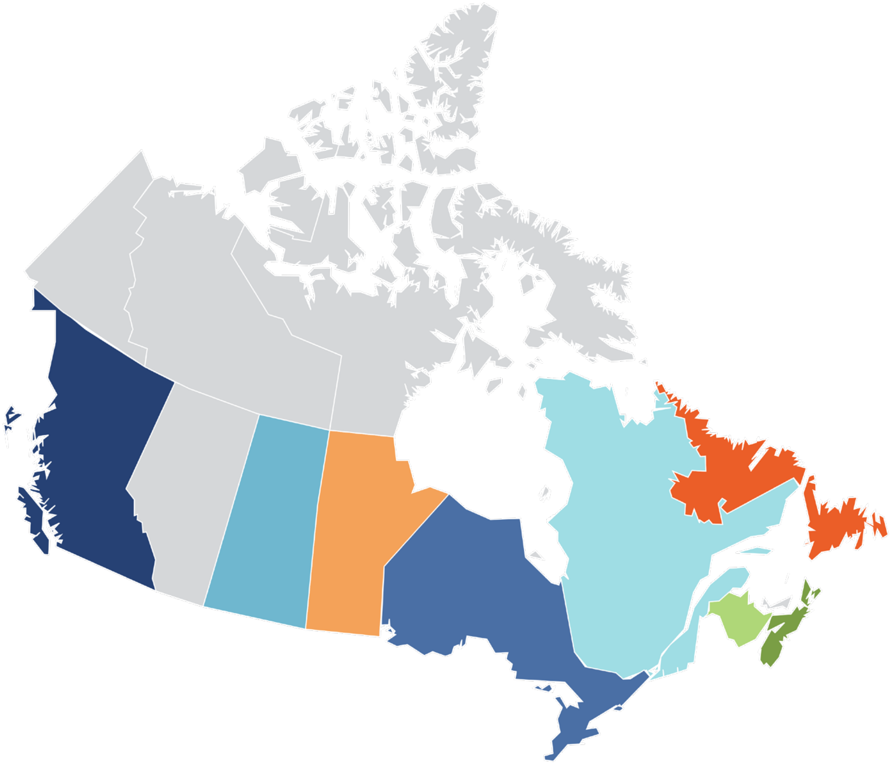


Figure 1. Visual representation of how General Obligation Bonds work

Examples

General obligation bonds are used across different municipalities in almost all provinces (Figure 2). For example, Winnipeg (MB) issued a $200 million, 40-year general obligation bond in January 2024 at a 4.65% coupon[4,5] to fund key capital projects, including upgrades to the South End Water Pollution Control Centre, construction of the North District Police Station, improvements at the St. James Civic Centre and the construction of the Bill and Helen Norrie Library. Calgary (AB) completed its first municipal bond issue in March 2024, raising $180 million at roughly 4.2% interest, lower than comparable provincial borrowing rates, generating an estimated $1.6 million in annual savings over ten years. In British Columbia, the Municipal Finance Authority (MFA BC) regularly issues large-pooled debentures, including a $1.06 billion 10-year bullet bond at roughly 2.5%, enabling municipalities of all sizes to access capital markets efficiently and fund long-term infrastructure across the province.



BRITISH COLUMBIA
1 FNFA
2 MFABC
3 TransLink
4 City of Vancouver

SASKATCHEWAN
1 City of Regina
2 City of Saskatoon

NEW BRUNSWICK
1 NBMFC

NOVA SCOTIA
1 Nova Scotia Municipal Finance Corp

QUEBEC
1 City of Montreal
2 Quebec City

MANITOBA
1 City of Winnipeg

NEWFOUNDLAND & LABRADOR
1 City of St. John's

ONTARIO
1 City of Toronto
2 Region of York
3 Region of Peel
4 City of Ottawa
5 Region of Halton
6 City of London
7 Region of Waterloo
8 Region of Niagara
9 Region of Durham
10 City of Guelph
11 County of Wellington

Source: RBC Capital Markets

Figure 2. Most Active Canadian Municipal Bond Issuers in 2018[6]

Relevance to Advancing Adaptation

General obligation bonds can enable municipalities to fund large-scale, long lasting adaptation infrastructure that benefits entire communities, such as flood protection, stormwater management systems, resilient roadways, and energy efficient public buildings. For example, a municipality could issue a $100 million GO bond to finance a multi-decade flood mitigation program, building berms, elevating key roads, and upgrading pumping stations, repaid through property taxes over 20–30 years. This spreads the cost across generations of taxpayers who benefit from the infrastructure. Their flexibility and stability make GO bonds foundational sources of long term and reliable capital for adaptation projects, upon which other financing instruments can be built.

Accessibility

Access to GO bonds depends on provincial legislation, municipal credit capacity, and administrative expertise. For example, under Ontario's Municipal Act, 2001, municipalities may issue long-term debt only for capital projects and must balance operating budgets annually, ensuring that borrowing supports durable infrastructure such as transportation, water systems, or flood protection assets.[7] Moreover, large municipalities with strong credit ratings, such as Toronto or Vancouver can issue bonds directly on the capital markets, benefiting from investor confidence and low borrowing costs.[8] On the other hand, smaller or rural municipalities often access debt through provincial financing agencies, including the Municipal Finance Authority of British Columbia (MFABC), the Ontario Infrastructure Bank, or the Alberta Capital Finance Authority, which pool borrowing to secure better rates and shared credit support.[9] As with other fiscal tools in this catalogue, managing bond issuance, regulatory disclosure, and investor relations requires specialized skills more commonly found in larger municipalities with dedicated finance teams, whereas smaller communities often depend on pooled debenture systems or provincial financing intermediaries to access capital.

Feasibility

GO bonds are generally politically and economically feasible because they are viewed as safe investments with low default risk and steady repayment from tax revenues. They are attractive to investors such as pension funds and insurance companies due to predictable returns. In emergency contexts from a climate event, such as restoring infrastructure after flooding, borrowing through GO bonds can be faster than assembling grant funding. For example, following Hurricane Harvey, Harris County (Texas) used voter approved general obligation flood control bonds to mobilize US$2.5 billion for drainage and flood reduction projects, while federal disaster recovery grants and matching funds were still being assembled. However, feasibility can be constrained by market conditions such as rising interest rates which increase borrowing costs, inflation raises construction prices and borrowing needs and weakened credit ratings can restrict the municipalities' ability to issue new bonds or secure favorable terms.[10] These challenges are particularly significant for smaller municipalities with limited debt capacity.

Risk

A key risk associated with GO bonds is the long-term fiscal obligation they create for municipalities. Furthermore, rising interest rates can substantially increase debt servicing costs, diverting funds from essential services or future capital projects.[11] Smaller municipalities with limited tax bases may face higher borrowing costs or difficulty refinancing during periods of economic stress, increasing vulnerability to fiscal imbalance. Lastly, credit rating downgrades, whether triggered by broader market conditions or local exposure to climate-related damages, can further elevate borrowing costs and restrict access to investors.[12] As Canadian rating agencies increasingly incorporate climate resilience into municipal assessments, overreliance on debt without integrating adaptation planning may expose municipalities to higher long-term financing costs.[13]

Scalability

A debt service limit, often referred to as an Annual Repayment Limit or ARL in Ontario is a rule governing the maximum amount of long-term debt a municipality may carry relative to its revenue base. In Ontario, provincial regulation caps the maximum annual payments for principal and interest on long-term debt and other obligations at 25 % of a municipality's "own source" revenues that is, revenues such as property taxes, user fees, and investment income, excluding grants and transfers from other governments, less existing debt servicing costs. This threshold is set by Ontario Regulation 403/02 under the Municipal Act, 2001 and is updated yearly by the Ministry of Municipal Affairs and Housing as the ARL for each municipality.[14] Municipalities in Canada hold long-term borrowing potential, which can support the scalability of GO bond issuance over extended periods. For example, one analysis found that municipalities in Ontario used only 6% to 8% of their own source revenue debt servicing limit between 2009 and 2022, well below the conventional 25% threshold.[15] This might indicate available capacity for scaled long-term borrowing. Once a municipality establishes a policy and governance structure for issuance, it can issue subsequent bonds as older debt amortises or is retired. However, the pace and volume of issuance are still subject to institutional capacity, investor appetite, and external economic conditions. A recent municipal debt management review noted that many Ontario municipalities still lack formal debt policies or internal limits, which could slow scaling efforts.[16] Overall, GO bonds remain a foundational and scalable tool in municipal finance systems, offering predictable, long-term capital for climate resilient infrastructure.

Evaluation Matrix

Scoring: High = +1 | Medium = 0 | Low = −1

Criterion	Rating	Score	Key Evidence	Assessment
Effectiveness & Performance	High	+1	Strong capital financing for infrastructure	Provides large-scale, long-term capital for adaptation infrastructure backed by reliable tax-supported repayment.
Economic Efficiency	High	+1	Low interest rates, standardized instrument	Offers efficient access to relatively low-cost capital through mature markets and standardized issuance processes.
Equity & Fairness	Medium	0	Broad tax-based repayment	Costs are spread broadly through property taxes, supporting intergenerational equity but limiting beneficiary targeting.
Political Acceptability	Medium	0	Requires tax-backed repayment	Generally accepted for infrastructure financing, but tax implications and debt aversion can create political sensitivity.
Feasibility (Admin/Legal)	Medium	0	Requires expertise and provincial authorization	Widely available but constrained by debt limits and technical capacity requirements, especially for smaller municipalities.
Coherence (Portfolio Fit)	High	+1	Core municipal finance tool	Fits well within municipal capital planning and complements grants, reserves, and user-fee tools.

Best Use Context

General obligation bonds are most effective for large municipalities or those with access to pooled financing arrangements. They are best suited to financing major, long-life adaptation infrastructure where costs can be spread over time.

Context Factor	Relevance	Notes
Municipal Size	High	Large municipalities benefit most; small ones rely on pooled financing.
Administrative Capacity Required	Medium	Financial expertise is needed, though intermediaries can reduce the burden.
Development Pressure	Low	The tool does not depend on growth and is supported by a stable tax base.
Climate Risk Targeting	Medium	Supports major infrastructure investment but is not highly targeted to specific risks or beneficiaries.
Fiscal Flexibility Required	High	Requires adequate debt capacity and stable municipal revenues.

Recommended Citation

Tóth, A., Ma, K., Meaney, M., Jackson, E., Tremblay-Racicot, F., Couture, J., Duguay, V., Henstra, D., Thistlethwaite, J., Ewart, T., & Stein, N. (2026). *General Obligation Bonds*. In *Catalogue of Fiscal Tools to Advance Adaptation*. ICLEI Canada. https://icleicanada.org/project/fiscal-tools-catalogue/

References

[1] City of Toronto. (2025). Operating Budget Briefing Note. https://www.toronto.ca/legdocs/mmis/2025/bu/bgrd/backgroundfile-252805.pdf

[2] Altus Group. (2011). The Urban Infrastructure Challenge in Canada: Making Greater Use of Municipal Debt Options. https://wcrhca.com/wpcontent/ uploads/2022/08/Municipal-Debt-Options-Report-Jan-11.pdf

[3] Altus Group. (2011). The Urban Infrastructure Challenge in Canada: Making Greater Use of Municipal Debt Options. https://wcrhca.com/wpcontent/uploads/2022/08/Municipal-Debt-Options-Report-Jan-11.pdf

[4] Coupon rate is the rate of interest the bond will pay on the face value of the bond, expressed as a percentage.

[5] National Bank of Canada. (2022). *The ABCs of bonds*. https://nbdb.ca/learning-centre/understanding-stock-market/fixed-income-securities/bonds-how-do-they-work.html

[6] RBC Capital Markets. (2018). *Canadian Municipalities Primer – Version 2.0*. https://www.rbccm.com/assets/rbccm/docs/news/2018/18-050adcm-2-canadian-municipalities-primer.pdf

[7] Government of Ontario. (2025). *Tools for municipal budgeting and longterm financial planning*. https://www.ontario.ca/document/tools-municipalbudgeting-and-long-term-financial-planning

[8] Royal Bank of Canada. (2018). *RBC Debt Capital Markets – Canadian Municipalities Primer – Version 2.0*. https://www.rbccm.com/assets/rbccm/docs/news/2018/18-050a-dcm-2-canadian-municipalities-primer.pdf

[9] Altus Group. (2022). *The Urban Infrastructure Challenge in Canada: Making Greater Use of Municipal Debt Options*. https://wcrhca.com/wp-content/ uploads/2022/08/Municipal-Debt-Options-Report-Jan-11.pdf

[10] Moody Investors Service. (n.d.). *Procedures and Methodologies Used to Determine Credit Ratings*. https://www.moodys.com/sites/products/ProductAttachments/Exhibit2.pdf

[11] Government of Ontario. (2025). *Tools for municipal budgeting and longterm financial planning*. https://www.ontario.ca/document/tools-municipalbudgeting-and-long-term-financial-planning

[12] Moody Investors Service. (n.d.). *Procedures and Methodologies Used to Determine Credit Ratings*. https://www.moodys.com/sites/products/ProductAttachments/Exhibit2.pdf

[13] Government of Canada. (2021). *Canada in a Changing Climate. Climate Disclosure, Litigation and Finance, Chapter 8*. https://changingclimate.ca/site/assets/uploads/sites/3/2020/05/Chapter-8_Climate-Disclosure-Litigation-and-Finance_Final_EN-1.pdf

[14] Government of Ontario. (2026). *Understanding Municipal Debt.*https://www.ontario.ca/document/tools-municipal-budgeting-and-long-term-financial-planning/understanding-municipal-debt

[15] Missing Middle Initiative. (2025). *Debt, rather than DCs, can lower the costof building infrastructure*. https://www.missingmiddleinitiative.ca/p/debtrather-than-dcs-can-lower-the

[16] Municipal Finance Officers' Association of Ontario. (2021). *The Management of Municipal Debt in Ontario*. https://mfoa-assets.s3.ca-central-1.amazonaws.com/Policy/20211020_R1_Management_of_debt_October_18.pdf

Find More Fiscal Tool Briefs Online

This brief is part of a larger catalogue. The Catalogue of Fiscal Tools to Advance Adaptation examines how municipalities can use and optimize existing fiscal tools to support climate adaptation and climate-resilient infrastructure. Each brief included in this catalogue explores a specific tool, assesses its strengths and limitations through a common analytical framework, and highlights examples of how it has been applied in practice.

Local Governments for Sustainability
Les gouvernements locaux pour le développement durable
CANADA

Learn more and download additional briefs online at [ICLEICanada.org/project/fiscal-tools-catalogue/.](ICLEICanada.org/project/fiscal-tools-catalogue/)